
Recommendations to the SEC:

Executive Compensation Disclosure

Presented by: Group of Institutional Investors and
 Compensation Consultants

October 18, 2005

Background

Better disclosure and transparency of executive compensation should enable shareholders to better understand the complexities of total compensation and its alignment with their interests. Late last year, in an attempt to further develop this viewpoint, CalPERS organized a group of representatives from leading institutional investors and executive compensation consultants to discuss issues of mutual concern.

Organizations represented include:

Consultants

Hewitt Associates
Mercer Human Resource Consulting
Towers Perrin
Watson Wyatt Worldwide

Investors

CalPERS
Fidelity Management and Research Co.
Legg Mason
TIAA-CREF

This document reflects our collective suggestions for how the tabular disclosures contained in proxy statements could be improved. It does not reflect our thinking about the Compensation Committee Report or Performance Graph, which we intend to address at a later time.

Guiding Principles

The principles evolved from the underlying premise that clear and comprehensive disclosure is good for all parties.

Executive compensation disclosure should:

1. Embody and recognize the evolutionary nature of executive compensation practices and disclosure requirements.
2. Provide a comprehensive overview of all elements of compensation, while avoiding double counting.
3. Strike a balance among shareowners' need to know, the proprietary interests of the company, and the company's need to recruit and retain executives.
4. Compliance should not overwhelm company resources.
5. Be consistent in format and quality to facilitate comparative evaluation of executive compensation across companies. Tabular summaries are generally preferable to text.
6. Facilitates analysis of the relationship among corporate strategy, company and management performance and pay.
7. Information should be accessible, available and understandable without the need for special expertise: plain English and basic math.
8. Provides sufficient information to instill confidence to shareowner voting.
9. Reveals the process and principles used in the Board of Directors deliberations on executive compensation policies and pay decisions.
10. Utilizes sound valuation methodologies for non-cash forms of pay.

Overview of Issues

Here is an overview of the issues that we believe should be disclosed annually to shareholders and why:

Disclosure Issue	What shareholders want to know	Why?
1. Total Compensation	The aggregate, all-in cost of management for the current year.	To reasonably calculate pay-for-performance.
2. Equity Awards	The cost of all forms of equity compensation – not just options.	To calculate the significance of each equity vehicle devised in the plan and understand the performance measurements incentivizing each grant.
3. Performance Measures	Factors driving awards.	To understand which type(s) of performance for which the company intends to pay.
4. Perquisites and Other Compensation	Identification of all benefits and their full costs.	To account for the added benefits to determine if reasonable.
5. Retirement	Aggregate retirement benefits from all sources.	To examine the potential costs of retirement.
6. Severance	All elements that would be paid upon the executive's termination of employment.	To examine the potential costs of severance.

Proposed Content for Compensation Disclosures

- A. Three Year Executive Compensation Grant Table
- B. Three Year Executive Compensation Payout Table
- C. Long-Term Incentive Grant Table
- D. Equity Value Table
- E. Dividends, Interest and Perquisites Earned or Received
- F. Retirement Benefits
- G. Employment Contracts, Change in Control and Severance
- H. Dilution Table (current content and format)
- I. Performance Graph (recommendations pending)
- J. Compensation Committee Report (recommendation pending)
- K. Director's Compensation Disclosure (recommendation pending)

A. Three-Year Executive Compensation Grant Table

		Annual Compensation		Long-Term Incentive Compensation					Total Compensation
		Salary	Bonus	Restricted Stock/RSUs	Options/SARs ¹	Performance Shares or Stock LTIP ²	Performance Units or Cash LTIP	Other Compensation ³	
Officer 1	2004	\$1,500,000	\$2,700,000	\$1,500,000	\$7,634,590	\$1,000,000	\$	\$1,236,537	\$15,571,127
	2003	\$900,000	\$2,000,000	\$900,000	\$5,303,641	\$0	\$	\$1,356,954	\$10,460,595
	2002	\$700,000	\$2,500,000	\$700,000	\$568,247	\$1,300,000	\$	\$961,543	\$6,729,790
Officer 2	2004	\$1,000,000	\$2,200,000	\$1,000,000	\$5,682,472	\$750,000	\$	\$464,976	\$11,097,448
	2003	\$1,000,000	\$2,000,000	\$1,000,000	\$3,488,315	\$0	\$	\$194,310	\$7,682,625
	2002	\$700,000	\$1,500,000	\$700,000	\$511,423	\$1,000,000	\$	\$45,000	\$4,456,423
Officer 3	2004	\$900,000	\$2,700,000	\$900,000	\$3,788,315	\$750,000	\$	\$86,069	\$9,124,384
	2003	\$850,000	\$2,500,000	\$850,000	\$3,030,652	\$0	\$	\$68,932	\$7,299,584
	2002	\$650,000	\$1,000,000	\$650,000	\$284,124	\$850,000	\$	\$130,117	\$3,564,241
Officer 4	2004	\$900,000	\$1,100,000	\$900,000	\$3,788,315	\$500,000	\$	\$72,950	\$7,261,265
	2003	\$850,000	\$1,000,000	\$850,000	\$2,272,989	\$0	\$	\$72,430	\$5,045,419
	2002	\$650,000	\$1,300,000	\$650,000	\$284,124	\$850,000	\$	\$309,164	\$4,043,288
Officer 5	2004	\$850,000	\$2,700,000	\$850,000	\$3,788,315	\$500,000	\$	\$69,214	\$8,757,529
	2003	\$700,000	\$2,500,000	\$700,000	\$2,272,989	\$0	\$	\$10,000	\$6,182,989
	2002	\$500,000	\$1,200,000	\$500,000	\$56,825	\$500,000	\$	\$10,000	\$2,766,825

Notes:

¹. Option values are disclosed using the FASB's fair value methodology. See Tables C and D for more details about grants and accumulated balances.

². LTIP equity target includes the target dollar value of performance-based performance units, performance shares, performance-based RS/RSUs which are tied to premium priced, indexed, or operational hurdles. See Table C for more details.

³. Includes perquisites and benefits, all dividends and dividend equivalents accrued on unvested restricted stock, RSUs and options (not just above-market element) and interest or dividends credited on deferred compensation (not just above-market element). See Table E for more details.

B. Three-Year Executive Compensation Payout Table

		Annual Compensation		Long-Term Incentive Compensation					Total Compensation
		Salary	Bonus	Vested Restricted Stock/RSUs	Exercised Options/SARs ¹	Performance Shares or Stock LTIP payout ²	Performance Units or Cash LTIP payout	Other Compensation ³	
Officer 1	2004	\$1,500,000	\$2,700,000	\$1,166,667	\$2,568,247	\$1,300,000	\$	\$1,236,537	\$10,471,451
	2003	\$900,000	\$2,000,000	\$0	\$0	\$0	\$	\$1,356,954	\$4,256,954
	2002	\$700,000	\$2,500,000	\$0	\$0	\$0	\$	\$961,543	\$4,161,543
Officer 2	2004	\$1,000,000	\$2,200,000	\$1,166,667	\$2,311,423	\$1,000,000	\$	\$464,976	\$8,143,066
	2003	\$1,000,000	\$2,000,000	\$0	\$0	\$0	\$	\$194,310	\$3,194,310
	2002	\$700,000	\$1,500,000	\$0	\$0	\$0	\$	\$45,000	\$2,245,000
Officer 3	2004	\$900,000	\$2,700,000	\$1,083,333	\$1,284,124	\$850,000	\$	\$86,069	\$6,903,526
	2003	\$850,000	\$2,500,000	\$0	\$0	\$0	\$	\$68,932	\$3,418,932
	2002	\$650,000	\$1,000,000	\$0	\$0	\$0	\$	\$130,117	\$1,780,117
Officer 4	2004	\$900,000	\$1,100,000	\$1,083,333	\$1,284,124	\$850,000	\$	\$72,950	\$5,290,407
	2003	\$850,000	\$1,000,000	\$0	\$0	\$0	\$	\$72,430	\$1,922,430
	2002	\$650,000	\$1,300,000	\$0	\$0	\$0	\$	\$309,164	\$2,259,164
Officer 5	2004	\$850,000	\$2,700,000	\$833,333	\$256,825	\$500,000	\$	\$69,214	\$5,209,372
	2003	\$700,000	\$2,500,000	\$0	\$0	\$0	\$	\$10,000	\$3,210,000
	2002	\$500,000	\$1,200,000	\$0	\$0	\$0	\$	\$10,000	\$1,710,000

Notes:

1. Option values are disclosed as the excess of the stock's fair market value at exercise over the exercise price.
2. LTIP equity target includes the dollar value paid on performance-based performance units, performance shares, performance-based RS/RSUs which are tied to premium priced, indexed, or operational hurdles.
3. Includes perquisites and benefits, all dividends and dividend equivalents accrued on unvested restricted stock, RSUs and options (not just above-market element) and interest or dividends credited on deferred compensation (not just above-market element).

C. 2004 Long-term Incentive Grant Table for Top Five Executives

145

	Number of securities	Fair Market Value or Weighted Exercise Price	Performance metrics ¹	Vesting ²
Officer 1				
Restricted Stock/RSUs ³	30,000.00	50.00	n/a	2 yr cliff
Time-vested Options/ SARs ⁴	500,000.00	50.00	n/a	2 yr cliff
Performance-contingent Options ⁵	300,000.00	50.00	ROE, ROIC	2 yr cliff
LTIP Target (equity only) ⁶	20,000.00	50.00	EVA, ROA	2 yr cliff
LTIP Target (cash only)	Not granted in 2004	n/a	n/a	n/a

Officer 2				
Restricted Stock/RSUs ³	20,000.00	50.00	n/a	2 yr cliff
Time-vested Options/ SARs ⁴	300,000.00	50.00	n/a	2 yr cliff
Performance-contingent Options ⁵	300,000.00	50.00	ROE, ROIC	2 yr cliff
LTIP Target (equity only) ⁶	15,000.00	50.00	EVA, ROA	2 yr cliff
LTIP Target (cash only)	Not granted in 2004	n/a	n/a	n/a

Officer 3				
Restricted Stock/RSUs ³	18,000.00	50.00	n/a	2 yr cliff
Time-vested Options/ SARs ⁴	100,000.00	50.00	n/a	2 yr cliff
Performance-contingent Options ⁵	300,000.00	50.00	ROE, ROIC	2 yr cliff
LTIP Target (equity only) ⁶	15,000.00	50.00	EVA, ROA	2 yr cliff
LTIP Target (cash only)	Not granted in 2004	n/a	n/a	n/a

Please continue to next page for continuation of table and footnotes.

Officer 4				
Restricted Stock/RSUs ³	18,000.00	50.00	n/a	2 yr cliff
Time-vested Options/ SARs ⁴	100,000.00	50.00	n/a	2 yr cliff
Performance-contingent Options ⁵	300,000.00	50.00	ROE, ROIC	2 yr cliff
LTIP Target (equity only) ⁶	10,000.00	50.00	EVA, ROA	2 yr cliff
LTIP Target (cash only)	Not granted in 2004	n/a	n/a	n/a

Officer 5				
Restricted Stock/RSUs ³	17,000.00	50.00	n/a	2 yr cliff
Time-vested Options/ SARs ⁴	100,000.00	50.00	n/a	2 yr cliff
Performance-contingent Options ⁵	300,000.00	50.00	ROE, ROIC	2 yr cliff
LTIP Target (equity only) ⁶	10,000.00	50.00	EVA, ROA	2 yr cliff
LTIP Target (cash only)	Not granted in 2004	n/a	n/a	n/a

Notes:

1. Performance metrics (premium priced, indexed, or operational) required to vest equity.
2. Time period or event (change in control or retirement) required to vest equity.
3. Restricted stock/RSUs include all time-vested and (or) performance-accelerated restricted forms of securities.
4. Time-vested options (SARs) include all time-vested and (or) performance-accelerated options.
5. Performance-contingent options include all option-like equity tied to one of the following hurdles: 1.) premium price, 2) indexed, or 3) operational.
4. LTIP equity target includes the target dollar value of performance-based performance units, performance shares, performance-based RS/RSUs which are tied to premium priced, indexed, or operational hurdles.

D. Equity Value Table

Values for Options, Restricted Stock, and Performance Shares are calculated using the year-end stock price.

Options ¹				Restricted Stock ²		Performance Shares ³		
Number of Securities Underlying Unexercised Options (#)		Value of Unexercised In-the-Money Options (\$)		Number of Unvested Shares (#)	Value (\$)	Number of Unvested Shares (#)	Value (\$)	
Exercisable	Unexercisable	Exercisable	Unexercisable	Unvested	Unexercisable	Unvested	Unexercisable	
Officer1	58,200	282,381	\$ 1,301,934.00	\$ 5,256,644.00	300,000	\$ 9,000,000.00	20,000	\$ 600,000.00
Officer2	23,280	130,543	\$ 520,774.00	\$ 2,392,200.00	200,000	\$ 6,000,000.00	15,000	\$ 450,000.00
Officer3	17,460	98,242	\$ 390,580.00	\$ 1,799,659.00	150,000	\$ 4,500,000.00	15,000	\$ 450,000.00
Officer4	17,460	98,242	\$ 390,580.00	\$ 1,799,659.00	100,000	\$ 3,000,000.00	10,000	\$ 300,000.00
Officer5	5,819	38,721	\$ 130,171.00	\$ 698,221.00	50,000	\$ 1,500,000.00	10,000	\$ 300,000.00

Notes:

1. Stock appreciation rights would be shown the same as stock options.

2. Restricted stock units would be shown the same as restricted stock.

3. Performance share plans that are paid out in cash or stock should be disclosed presuming plan is paid out in stock. A company would have the option to disclose the number of shares in the table by utilizing either of the two methods: 1) an estimate based on the number of shares accrued to date through the end of the fiscal year for accounting purposes, or 2) the target value.

E. 2004 Dividends, Interest and Perquisites Earned or Received Table

		Officer 1	Officer 2	Officer 3	Officer 4	Officer 5
Legal Fees	2004	—	—	—	—	—
	2003	—	—	—	—	—
	2002	118,667	—	—	—	—
Personal use of company aircraft	2004	101,500	6,400	—	3,800	—
	2003	107,175	15,000	—	3,300	—
	2002	61,475	—	20,291	10,350	—
Personal financial planning services	2004	26,385	—	—	—	—
	2003	29,350	—	—	—	—
	2002	15,254	—	—	—	—
Cash flexible perquisite payments	2004	—	50,000	41,851	38,000	50,000
	2003	12,500	26,096	27,250	38,000	—
	2002	43,056	—	27,250	38,000	—
Temporary housing	2004	—	21,348	—	—	—
	2003	73,194	20,227	—	—	—
	2002	60,300	—	—	33,156	—
Excess liability insurance	2004	1,150	1,150	1,150	1,150	1,150
	2003	1,130	471	1,130	1,130	—
	2002	844	—	1,125	1,125	—
Personal use of company car	2004	55,390	—	292	—	—
	2003	66,651	—	9,125	—	—
	2002	28,944	—	—	—	—
Security	2004	36,597	—	—	—	—
	2003	169,978	—	—	—	—
	2002	—	—	—	—	—
Tax reimbursement payments	2004	71,635	333,578	12,776	—	3,064
	2003	136,976	87,516	1,427	—	—
	2002	394,903	—	56,451	234,689	—
Dividends & Dividend Equivalents	2004	750,000	—	—	—	—
	2003	600,000	—	—	—	—
	2002	100,000	—	—	—	—
Interest on deferred compensation	2004	5,000	2,500	0	—	3,064
	2003	10,000	0	0	—	—
	2002	8,000	—	0	0	—
Totals	2004	1,047,657.00	\$414,976.00	\$56,069.00	\$42,950.00	\$54,214.00
	2003	1,206,954.00	\$149,310.00	\$38,932.00	\$42,430.00	—
	2002	831,543.00	—	\$105,117.00	\$284,164.00	—

F. Retirement Benefits

- We propose that one or more tables be required regarding defined contribution and defined benefit retirement arrangements.
- Figures included in the tables should show all benefits available, net of any offsets from Social Security or other company's pensions, whether from qualified or non-qualified plans
- For Deferred Compensation/Defined Contribution (DC) plans, we'd like to see:
 - Current year's contributions
 - Employee
 - Employer
 - Interest/appreciation (including dividend equivalents)
 - Accumulated balances
 - Employee contributions
 - Employer contributions
 - Accumulated interest/appreciation
 - Total balance
 - Rate(s) of interest or appreciation
- For Defined Benefit (DB) plans, we'd like to see:
 - Years of credited service
 - Years of service with company (if different)
 - Estimated present value assuming earliest possible retirement
 - Estimated present value assuming normal retirement
 - Increase in present value in last fiscal year
 - Footnotes for key assumptions
 - Consider format required in the UK

G. Employment Contracts, Change in Control and Severance

This would continue to be a narrative disclosure, but with required elements sufficient to roughly estimate possible severance costs that would apply in the event of (1) involuntary termination without cause, and (2) termination due to change in control. Key elements to be disclosed:

- Severance formula
 - Cash payment for Multiple of Pay and Pay Base (e.g., 2.99 times average salary plus bonus for prior three years)
 - Whether any benefits or perquisites are to be continued following termination of employment, and for how long?
- Number of individuals eligible for special arrangement(s)
- Required event(s) to trigger payments or vesting -- e.g., change of control and either involuntary termination of employment or voluntary termination for good reason
- Whether vesting would be accelerated for any programs upon triggering event
- Whether bonuses would be paid for the year employment terminations, and on what basis?
- Whether any tax gross-ups would apply?

For more information or clarification in respect to the ideas presented in this report, please contact any of the following contacts provided below:

Organization	Contact	Phone #	E-mail
<i>CalPERS</i>	Christy Wood Dennis Johnson	(916) 795-0209 (916) 795-2731	christy_wood@calpers.ca.gov dennis_johnson@calpers.ca.gov
<i>Fidelity Management & Research Co</i>	Eric Roiter	(617) 563-2890	Eric.roiter@fmr.com
<i>Hewitt Associates</i>	Michael Powers	(847) 295-5000	Michael.powers@hewitt.com
<i>Legg Mason</i>	David Nelson	(410) 454-5852	dnelson@lmfunds.com
<i>Mercer Human Resource Consulting</i>	Diane Doubleday	(415) 743-8748	Diane.Doubleday@mercerc.com
<i>TIAA-CREF</i>	Linda Scott	(212) 916-5902	lscott@tiaa-cref.org
<i>Towers Perrin</i>	Paula Todd	(203) 326-4748	Paula.todd@towersperrin.com
<i>Watson Wyatt Worldwide</i>	Andrew Goldstein	(312) 525-2205	Andrew.goldstein@watsonwyatt.com